

Accrual Basis and Political Interest in Public Sector Accounting. The Case of a Municipal Council in Sri Lanka

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Abstract *This paper contributes to the discussion of introducing accrual basis accounting to public sector. Less Developed Country (LDC) studies show a failure despite the attempt for a long. Accrual accounting is beneficial compared to cash basis as far as creation of accounting information is concerned. Moreover conversion of public sector accounting from cash to accrual basis is a requirement of New Public Management practice under neo liberal economic reforms. Hence it is worth to study the reasons for the failure. This study uses the political economic perspective and accordingly hegemonic analysis of Gramsci (1971). The study is carried out as a qualitative case study in the phenomenological tradition at the Colombo Municipal Council (CMC) of Sri Lanka. Findings show that accrual basis in the current accounting framework does not work because it does not address the political interest dominating over public sector organisations. It concludes emphasizing the need of reconsidering the accounting framework of public sector having regard on political interest in the state sector before introducing accrual accounting.*

Key words Accrual accounting, public sector accounting, political interest in accounting, new public management, hegemony and accounting

DOI: 10.6007/IJARAFMS/v6-i3/2161

URL: <http://dx.doi.org/10.6007/IJARAFMS/v6-i3/2161>

1. Introduction

Intention of this paper is to contribute to the discussion on the transformation of public sector accounting from cash to accrual basis. This paper aims at exploring on difficulties in implementing accrual accounting in public sector accounting. Transformation of accounting in the public sector from cash basis to accrual is still an unresolved question especially in the Less Developed Country (LDC) context. As an element of neoliberal economic reforms agenda, attempts have been made to replace cash based accounting practice of the public sector with accrual based accounting for the last 30 years (Adhikari and Melamwik, 2011). The use of accrual accounting is needed for successful implementation of New Public Management (NPM) project of the reforms being introduced since 1980s (Guthrie, 1998; Lapsley *et al.*, 2009).

Accrual accounting is encouraged for its capacity to provide information for enhanced fiscal transparency and accountability (Gillibrand and Hilton, 1998; Perrin, 1998; Ryan, 1998), depiction of financial condition of public sector organisations (Chan, 2003; Guthrie, 1998), report improved performance (Christiaens and de Wielemaker, 2003; Likierman, 2000), facilitate better quality decision making in relation to the allocation of available resources (Gillibrand and Hilton, 1998; Goldman and Brashares, 1991; Hoque and Moll, 2001; Pallot, 1997; Ryan, 1998), support more accurate performance measurement (Goldman and Brashares, 1991; Hodges and Mellett, 2003), and help services' cost calculation (Guthrie, 1998; Pallot, 2001). Some drawbacks such as measurement problems and cost implications in adopting accrual accounting are also reported (Chan, 2003). Nevertheless, for the reason that expected benefits are greater compared to the drawbacks (Cohen *et al.*, 2013) the attempt to move towards accrual accounting is still going on. However, No country in the LDC context reports success of the change to accrual accounting, despite the involvement of professional accounting bodies in respective countries in issuing Public Sector Accounting standards. Many case studies reveal the issues in the attempt of adopting accrual accounting in the public sector (Adhikari *et al.*, 2013; Adhikari and Melamwick, 2011). In

some cases for instance in Nepal, accounting is returning from accrual accounting to cash accounting realizing the inappropriateness of accrual accounting once introduced (Adhikari and Melamvik, 2011).

In the context of Sri Lankan public sector, efforts have been in progress to transform its cash based accounting to accrual accounting for nearly a decade. Public sector accounting standards based on accrual accounting and instructions from the Ministry of Finance are being issued to public sector organisations pushing them towards this. Still discussions are going on to understand how accrual accounting can be adopted. Hence, this paper focuses on why accrual accounting cannot be adopted in public sector organisations. In finding explanations to this effect, the paper takes a political perspective because majority of the public sector issues, especially in the LDC context, cannot be detached from political implications (see for instance, Hopper et al, 2009; Alawattage and Wickramasinghe, 2008; Wickramasinghe and Hopper, 2005; Uddin and Hopper, 2001 and Hoque and Hopper, 1994). This paper questions whether the accrual accounting's ignorance of political interests of the state is active among difficulties, if not failures, in implementing accrual accounting. This research involves a case study adopting phenomenological tradition of qualitative inquiries for the investigation.

Rest of this paper is organized first, giving an account of the existing knowledge on the debate on adopting accrual accounting in the public sector. Secondly, an explanation of the theoretical perspective adopted for this study is provided. This is followed by method of research and then presentation of data on the case study conducted at the Colombo Municipal Council (CMC) of Sri Lanka. Finally the paper is engaged in a discussion and conclusion.

2. Literature review of accrual basis in public sector

Accounting plays not only a technical-rational role providing efficiency information but also a socio-political role rationalizing organization's actions to gain negotiating advantages as well as an institutional role legitimizing the business to its stakeholders (Ansari and Euske, 1987). In other words the use of accounting information in the organizational context endeavours to facilitate decision making as well as to exert greater behavioural control over the organization's members (Zimmerman, 2008; Cohen *et al.*, 2013). Cash based accounting is the method of accounting for government in most cases and introduction of accrual base is the most recent trend (Yapa and Ukwatte, 2015; Adhikari and Mellemvik, 2011, Elwood and Newberry, 2006). Accrual accounting has more support than cash based accounting towards intentions of accounting in organisations. Cash based accounting, also called budget accounting, goes with conventional thinking focused on compliance to rules and regulations whereas accrual based accounting is in line with modern thinking towards maintaining efficiency of operations passing less cost to the society (Tudor and Mutiu, 1990). Cash based accounting recognizes transactions and events only when cash is received or paid (Ibanichuka and James, 2014) and is selected in many countries for the presentation of financial transaction when government is not interested in calculating the net gain or net loss or protection of public money (Chan, 2003; Pallot, 1992).

A move towards accrual accounting in the public sector is discussed in the body of public sector accounting literature over more than last two decades. Over the last 25 years numerous changes have been introduced in public sector under the label of 'neo-economic liberal reforms' across the world (Connolly and Hyndman, 2010) including Sri Lanka with the intention of constraining and reducing the size and power of governments, while at the same time supporting and encouraging the expansion of business activity (Ellwood and Newberry, 2006). These reforms aim at promoting private sector in economic development and putting the public sector in competition with the private sector. New Public Management (NPM) is coming as an element within this agenda. According to Hood (1995) NPM is associated with themes of change focused on bringing private sector managerial practices to the public sector. NPM implementation implies the need of accrual accounting (Olson *et al.*, 1998; Connolly and Hyndman, 2010). Hence, the transition to accrual-based accounting is justified.

Whether political or not, intentions behind the need of accrual accounting are productive. The prediction behind the movement towards accrual accounting is to provide comprehensive information needed to enhance accountability, financial transparency, efficiency of public sector organisations needed for international partners to facilitate public financial reforms (Adhikari and Mellemvik, 2008; Timoshenko and Adhikari, 2010; Christiaens and Rommel, 2008; Ezzamel *et al.*, 2005). The European Commission

believes a transition from cash to accruals-based accounting is necessary to “avoid some of the window-dressing that is allowed by cash accounting, where a payment can be brought forward or postponed so as to be recorded in the period that the government chooses” (European Commission, 2013, Section 3).

The case of LDCs is different (from Western countries) where move towards accrual accounting is not a need on rational grounds of supporting underlying improvements, but due to mere international pressures. LDCs are rather susceptible to international developments in government accounting (Allen, 2009). In the case of most LDCs, the pressure to adopt accrual accounting and IPSASs (International Public Sector Accounting Standards) in public sectors is initiated mainly by international agencies (such as International Accounting Standards Board (IASB), the IFAC, the WB, the ADB and the IMF as donor advocacy and lending conditions with the intention of adopting a more pro-market and pro-private sector stance in structural adjustment programs (James and Manning, 1996 cited in Yapa and Ukwatte, 2015:25; Adhikari and Mellemvik, 2011). The implementation of accruals in developing countries has been a key financial management reform agenda of international organizations for many years, particularly in the 1980s and 1990s (Dean, 1988; Adhikari and Mellemvik, 2008; Allen, 2009 cited in Adhikari and Mellemvik 2011: 124).

Some success stories and majority failures in introducing accrual accounting to public sector organisations in LDCs are found. However, majority of cases from LDCs are failures or struggles in implementing (Yapa and Ukwatte, 2015; Adhikari and Mellemvik, 2011). Nepal has returned from accrual to cash basis for the reason of difficulties in adopting accrual basis in the public sector (Adhikari *et al.*, 2013; Adhikari and Mellemvik, 2011). Such difficulties are mainly caused by measurement and valuation issues especially in relation to heritage assets (such as heritage buildings) and infrastructure assets such as roads, bridges etc. (Aversano and Christiaens, 2014; Christiaens *et al.*, 2012). In Sri Lanka attempts are being made for nearly a decade but still having no success (Adhikari *et al.*, 2013). Shedding lights on these recognition and valuation problems, many authors conclude that accrual accounting as is practiced in the private sector is not suitable for public sector organisations and the attention needs to be drawn on how accrual accounting can address these issues (Gårseth-Nesbakk, 2011; Grossi and Newberry, 2009).

3. Interests in organizations and the role of accounting – the theoretical framework

Organizations are formed by people in order to overcome biological and perceptual constraints in achieving their individual objectives (Ansari and Bell, 1991). From organizational theoretical point, an organization is a means for the capitalist groups to exploit other people being involved within the organisation whether they are managers or non-managerial workers to further their interests. Marx (1976, 1981) recognises managers as ‘special wage labourers’, who are hired to undertake the fusion of ‘supervision, directing, superintending and adjusting’ the human capacities of labour power (Willmott, 1995) or in other words for personifying capital for their own survival (Cressey and MacInnes, 1980). The owners dominate and plan every event in the organisation to their interest (Littler and Salaman, 1982). The agency relationship between owners and managers pays attention to the question of how management activity comes to further the regulative requirements of the perceived priorities of capital; managers are assessed by the way they interpret, protect and advance the interests of absentee owners (Hopper *et al.*, 1987). The same reality applies to public sector organisations, where managers of such organisations are to further the interests of rulers of the state.

Rulers’ interests in public sector organisations can well be explained drawing on Gramsci’s (1971) analysis of hegemony, which simply means the domination of a social group over others of the society through the intellectual and moral leadership. Hegemony is concerned with how societies survive and can be changed, seemingly, with the consent of most of their members, despite the existence of groups with different interests (Cooper, 1995). Accounting and control systems are involved in establishing and perpetuating hegemony of privileged groups within such organisations (see Tinker, 1980). Gramsci’s analysis of hegemony is used in accounting studies to understand how the capitalists’ interests are implicated in accounting practices in organisations (Lehman and Tinker, 1987; Richardson, 1989; Cooper, 1995; Uddin and Hopper, 2001; Goddard, 2002; and Alawattage and Wickramasinghe, 2008),

Viewed from the Gramscian analysis, society is comprised of broader two classes: bourgeois and peasant. The bourgeois class can be further analysed into the ruling class, bureaucratic strata (bourgeois aristocracy) and urban and rural intellectual class (professional strata and public officers). The peasant class

is further analysed into instrumental masses and peasant masses. Instrumental masses could be understood as the working class. Each social class has a specific and different fundamental role in relations of production.

In a hegemonic context the ruling group seeks to establish its supremacy and thereby dominance over others mainly through intellectual and moral leadership, but not to the exclusion of coercion. The intellectual and moral leadership exerts control through internal means of “moulding personal convictions into a replica of prevailing norms” (Femia, 1981:24). Coercion entails controlling the behaviours and choices of others through external means such as rewards and punishments. The supremacy of the ruling group is executed through the state, which is “the entire complex of political and theoretical activity by which the ruling classes not only justify and maintain their domination but also succeed in obtaining the active consent of the governed” (Femia, 1981:28; see also Jones, 1993). Ruling class is primarily structured with political parties to exert the domination. Hence, state is virtually subordinated to the ruling political party.

The social control in hegemony occurs through intellectual and moral leadership towards producing consent, which is the basis of hegemony; “...the concept of consent has been proposed as a ground or foundation of the right to exercise political authority and as a moral limit on the extent and nature of that authority” (Femia, 1981:36). Hegemony cannot be preserved merely with arrangements for establishing intellectual and moral leadership but with coercive apparatus as well. The need of these two types of apparatus creates two types of institutions: civil society and political society respectively. Civil society institutions are involved in producing, directing and maintaining spontaneous consent to the status quo and use intellectuals to create inner control in behaviours of masses. Political society institutions coerce various strata of the society into consenting to preserve the status quo; they include institutions of law, army, police and prison etc. (Holub, 1992).

Civil society institutions include a range of institutions such as education (e.g. school system), religion (e.g. church), political parties, sport teams, the family, and microstructures of the practices of everyday life (Holub, 1992; Jones, 2006). Public service organisations can also include as civil society or political society institutions; *“not only public services designed for the repression of crime, but the totality of forces organized by the state and by private individuals are to safeguard the political and economic domination of the ruling classes”* (Gramsci, 1971: 221).

Seeing through lens of hegemony, Colombo Municipal Council is a civil society institution, engaged in creating active consent of masses to the state rule exerted by the dominant group of the society. For this purpose the CMC provides public services on upgrading living standards of citizen of the territory. CMC can also be seen as a state having its own council constituted of members elected by constituents of the territory exercising another hegemonic rule. However, both hegemonies, operated by central state and CMC, seek consent of masses forming a harmony contributing to mutual survival of two levels of the state despite differences between the political parties, which subordinate the rule of the state and the CMC. Hence, CMC is to serve political interests of rulers in the municipal territory as well as the masses in general.

4. Methodology of research

This research focuses on exploring why accrual accounting cannot be implemented in the public sector in Sri Lanka. For this, the Husserl’s phenomenological tradition (Eagleton, 1983) is adopted. The phenomenological tradition of research explores ‘lived experience’ of a phenomenon. Martin Heidegger (1889–1976), a student of Husserl explored the ‘lived-world’ in terms of an average existence in an ordinary world (Schwandt, 1997). A phenomenological inquiry can use interviews to gather the participants’ descriptions of their experience, or the participants’ written or oral self-report, or even their aesthetic expressions (e.g. art, narratives, or poetry). This method encourages the relevant participants to give a full description of their experience, including their thoughts, feelings, images, sensations, memories - their stream of consciousness - along with a description of the situation in which the experience occurred. Boyd (2001) regards two to ten participants or research subjects as sufficient to reach saturation and Creswell (1998, pp. 65 and 113) recommends “long interviews with up to 10 people” for a phenomenological study (cited in Groenewald, 2004).

This inquiry was carried out as a case study at the CMC and three actors who were actively involved in the process of introducing and maintaining accrual accounting were interviewed. Six individual long interviews taking more than an hour per each session were held with them. In addition, content analysis of relevant documents was carried out. Such documents include minutes of the meetings, reports produced, and budgets prepared for the period etc. from CMC and some circulars issued by the Ministry of Finance.

5. CMC as a civil society institution of the state

CMC is the oldest local government institution in Sri Lanka established in 1865 to take care of the people's life in Colombo, the Capital city of Sri Lanka¹. Today it takes care of a resident population of over five hundred thousand. CMCs vision and mission statements indicate its role as an extension to the state services towards the general public in the territory. In this section we show CMC operating as a civil society institution being involved in forming and furthering the consent of masses to the rule of the state referring to the theoretical framework. The political interest of obtaining consent of the masses for the ruling is manifested in the mission statement of CMC: *'to ensure a safe, clean, healthy, productive city where neighbor hoods are revitalized, history is preserved, the natural environment is respected, and where all people can reach their full potential through education, commerce, culture, recreation and wellness'* (Colombo Municipal Council Budget, 2015). Strategic goals of the CMC too demonstrate the rulers' interest on obtaining consent of masses through improving working conditions of employees, living conditions of constituents and environmental condition of the city. In this context no attention on creating or maintaining economic excess can exist with CMC.

CMC shows characteristics of an enterprise engaged in constructing consent of masses through addressing their needs and earning thereon on a non-commercial basis. The Treasure of CMC states; *'This is a separate enterprise like. We can earn from various activities on our own policies. As the Treasure my responsibility to gather the income from such various services'*

CMC is involved in constructing and letting market spaces, other urban facilities such as houses and hawkers, pitches and reception halls and collecting any income thereon. In addition CMC is authorised to carry out regulatory activities such as issuing licenses and non-vesting certificates etc., on behalf of the state and earn revenue.

CMC can be recognized as a civil society institution referring to its governance structure. CMC is governed by a Mayor-Council Government system, in which Mayor and the council members are elected by constituents within the territory through local government elections held once in four years. Representatives from different political parties contest at the election with various election promises that are usual in a democratic ruling context. This again makes CMC striving towards constructing consent of masses. Sometimes the CMC ruling is operated by a different political ideology of a political party, which is different from the ruling party of the central state. Although, the political ideology is different, similarity between the two ruling systems is that both operate on a political interest of obtaining consent of the voters. Hence, CMC plays the role of a civil society in constructing consent of constituencies.

5.1 Accounting at CMC

The theoretical framework explained that accounting is to serve the interest of dominant capital owners or the rulers. In this section we show that the current accounting process at CMC serves neither the interests of CMC council nor the interests of other stakeholders including ruling political leadership of the state. From an organisational perspective accounting is needed for control. CMC is controlled under Municipal Council Ordinance, and maintains its activities through 08 programs; administration and utility services, health services, infrastructure and environmental services, sewerage, fire services, welfare and recreation, solid waste and roads. CMC operations come to its annual budget through proposals submitted by individual members and approved by the monthly council meeting for actions under these programmes for the benefit of constituencies.

¹ Municipal Councils affairs are governed by the Municipal Council Ordinance No. 17 of 1865 enforced by the colonial ruling (1815 – 1948) in Sri Lanka.

These projects are implemented under the supervision of the Project Department of CMC and are outsourced to contractors for implementation and therefore no progress monitoring by the Project Department is required. The Project Department is to inspect and certify the progress against the project plan for payment purposes. The accounting officer stated:

"The Project Department is not required to provide any information to monitor the projects. We just want information on payments to prepare the final accounts."

Financial reporting of CMC is statutorily defined. Municipal Treasurer has to provide a monthly Income and Expenditure account to the Finance Committee and Council. In addition CMC is to send annual financial statements to the 'Commissioner of the Department of Local Government'. This report is consisted of an Income Statement, a Statement of Financial Position and a Cash Flow Statement. No other statutory obligations on financial statements are prevailing.

Financial statements are produced by the accounting process of CMC, which is operated through a locally produced accounting software system, which combines cash and accrual accounting approaches. Income statement includes only earnings of CMC and the grant from the Treasury for the payment of remunerations. Expenditure includes acquisitions of non-current assets as well and not depreciation. As per explanations of an accounting officer, the CMC's statement of financial position is different, where only three items of non-current assets, which are movable in nature, are shown, namely, Furniture and Fittings, Motor vehicles and Machineries. No immovable properties are included because they cannot be valued due to huge valuation cost due to they are being 'heritage assets'. For example, land value for lands being occupied for office, parks, and other utilities, in the area, which is the centre of capital city, carries the highest land values of the country. Similarly, most buildings have been constructed during the colonial ruling before 1948. They have been accounted for under cash accounting and no asset values in relation to such assets are found in accounts.

It is found that although such information is provided, they do not serve interests of stakeholders. Responses suggest that the information produced in conventional rule based financial statements is not of interest to any council members of CMC. An accounting officer mentioned;

"Although, we submit monthly accounts to the finance committee most of the members show no interest to comments on them. We prepare them just to fulfil the statutory requirements. The reality is that everyone is interested only on tenders which are beneficial to them."

Members of CMC as politicians may be interested in the progress of public work. However, the existing accounting system does not report on performance of such projects. As the interviewee mentioned; *"There is no monitoring process on activities. At least a comparison between the budgeted and actual expenditure is not done."*

Further inquiry on the budgetary control over expenditure revealed that if the budget limit for any item of expenditure is reached during the period, accountants can transfer from any other budget item and go ahead with payments. However, the payments for project operations encounter an issue. Although, provisions for projects are included in the budget after approval of the Council, approval for implementation is required from the Mayor and the finance committee. Award of tenders for the projects involves a long process for calling, evaluating, selecting and awarding tenders involving long time duration. As per the Accounting Officer, it takes sometimes nearly nine months when a project starts its work. Many projects take a longer period and in most cases cannot be finished within the remaining three months of the year. However, the budgeted amount for the project cannot be carried forward out to the next period. Under this situation, accountants find an alternative; they release the budgeted amounts and retain as accounts payable. This helps carrying such budgetary provisions forward until projects are completed so that payments can be made beyond the budget period. Accounting officer says the accrual basis helps in that respect.

5.2 Interest on CMC accounting information

Income & Expenditure statement submitted by the Municipal Treasure to the monthly council meeting as per the Municipal Ordinance is the only accounting information formally submitted. If members are interested of quantitative progress of any project, it is obtained from the Engineering department

because such information is not contained in financial statements. An accounting officer explained about the interest of council members on accounting information.

'you know there are 53 members of the council, but only one member is interested about income and expenditure information submitted to the council.He is also not for any interest about affairs of the CMC. He is a businessman and a former clerk of several organisations in accounting departments and therefore having some knowledge of income and expenditure. He always raises some points at the council. As we understand it is merely for him to be highlighted among others.

An accounting officer further added that expenditure is submitted using 'technical jargons' such as remuneration, maintenance, infrastructure development and capital expenditure etc. and their lack of understanding on them may be a reason for their ignorance on this information. However, the members of the council including Mayor treat the provision of this information to the council is merely for satisfying statutory requirements and as such they just pass them at the meeting.

Absence of objectivity of accounting information is further illuminated by the accounting treatments for some items. Acquisition of non-current assets is charged as expenditure in the income and expenditure statement following the cash basis ignoring depreciation. On the other hand other expenditure items are treated on the accrual basis. Technically, the excess of income calculated on such an accounting process does not carry any meaning to a user. It reveals neither the balance of cash nor any excess of earnings for the period. The Municipal Treasure justifies that this statement is submitted as per the Municipal Ordinance merely for information of the members. The distortion of accounting information implies that interests of other stakeholders such as World Bank, IMF, and government cannot be served.

5.3 Resent move towards changing to accrual accounting

The government has started influencing all public sector organisations to transform their accounting systems from cash basis to accrual basis. The Director General of State Accounts Department of the Ministry of Finance instructs all Heads of Institutions in June, 2013:

'As a part of migrating path to modify accrual accounting in the public sector, it is hereby requested to make necessary arrangements to prepare the Financial Statements including Balance Sheet pertaining to your Ministry/Department from 2014 onwards'. This letter further advises that the assistance of the Department of Valuations could be obtained for valuation of land and buildings mentioned above in relation to implementation of accrual accounting system. However, valuation at CMC has not happened yet. Inquiry reveals that it is a huge cost and no funding is available for the purpose.

The Institute of Chartered Accountants of Sri Lanka has issued 10 Public Sector Accounting Standards (SLPSAS) to be adopted by all public sector organisations in 2009. These standards are based on the accrual based accounting. However, these standards are not fully adopted in the public sector organisation yet. An accounting officer revealed that a special committee has been appointed nearly four years ago by CMC to look into the way of implementing accrual accounting but still in progress. The State Accounts Department of the Ministry of Finance has taken further action towards the effort of converting accounting system from cash to accrual.

Accounting officers of CMC explain difficulties in adopting accrual accounting in the public sector. Accordingly, cost of implementing standards such as valuation is a main reason. Another is the need of qualified staff for accounting. Currently, accountants of the public sector are recruited on the basis of education up to the undergraduate level, part qualification of professional accounting programmes and experience in the public sector. With the basic training for three months on public sector accounting and administrative procedures especially on Financial Regulations are assigned to government offices as accountants. Hence, professionally qualified accountants are not necessarily appointed for the task, despite some government accountants have obtained professional qualifications being in the service. On the other hand the accounting officer mentioned that no serious concern is taken on accrual basis because there is no statutory obligations on producing accrual based financial statements.

6. Discussions and conclusions

This paper questions whether the accrual accounting's ignorance of political interest of the state is behind difficulties in transforming public sector accounting from cash to accrual accounting base. Accrual

accounting is argued to better serve needs of stakeholder information relating to organizations. Hence, it is vital to understand obstacles behind adopting accrual accounting in public sector organizations.

Yapa and Ukwatta (2015), Adhikari *et al.*, (2013), and Adhikari and Mellamwick (2011) report failures in implementing accrual accounting in LDCs. In order to understand this reality the study viewed the organizational context from lenses of Gramsci's (1971) hegemony. This illuminates that it is the political interest, which is the interest to sustain in the power, dominates over public sector organizations. Within a hegemonic context, public sector organizations operate as civil society institutions, which are involved in constructing and furthering the consent to the rule of the state. Organisational theory elucidates the need of accounting to serve accountability of managerial agency to serve dominant capitalist interest. The combination of this with the notion of hegemony identifies how the accounting in public sector organizations to be structured to serve political interest of rulers of the state.

Then the study explored the reason for CMC to exist and role its accounting plays. CMC is explicitly a civil society institution engaged in producing and furthering the consent of masses to the state. CMC carries the characteristics of a state where it is controlled by a politically elected council headed by the Mayor. The democratic formation of this institution necessitates dealing with producing and furthering the consent of masses. As a civil society institution CMC is involved in public services such as providing common amenities to constituencies for which, capital expenditure as well as recurrent expenditure are incurred. This goes with Wildevsky's (1965) view on public sector organizations as spending agencies.

As a statutory requirement at the end of every month the CMC reports the income and expenditure for the period to its council meeting but no single member is interested on the information. However, it is found that meeting members are interested to know about any information, which brings potential benefits such as tenders. In that line of thinking, we may predict that as representatives of masses of the territory, members of CMC may be interested about expenditure if provided relating to various value additions to voters in the territory. However, no such information is provided in accounting statements.

On the other hand the present mixed accounting system (cash and accrual) of CMC distorts financial outcomes and does not provide meaningful information users. However, some valuation and skill issues interfere in the adoption of a pure accrual accounting. Although, the Ministry of Finance has taken some instructional steps still there are some skill and valuation issues obstructing the adoption of accrual accounting.

Although NPM needs accrual accounting for its agenda, the role that accrual accounting can play for the dominant political interest of rulers of the state is not resolved yet. Hence, it is clear that in order to bring accrual accounting to public sector, there is a need of identifying what purposes accounting needs to serve compared to private sector. Mere transformation of the accounting system into accrual may not bring envisaged outcomes for NPM initiatives in the public sector. Instead this research finds that structure of the CMC needs to be changed and resultant dominant interests need to be identified in order to bring accrual accounting effectively. Until a clear reason for accounting in the public sector is identified, this research illuminates that the failure in the implementation of accrual accounting in the public sector continues. Until such time public sector accounting standards will continue to lie waiting to be adopted by public sector accountants. Until such time, the Auditor General may continue to issue adverse audit opinion on such financial statements on the ground of non-compliance to public sector accounting standards.

This paper contributes to the conclusion of many authors that accrual accounting as is practiced in the private sector is not suitable for public sector organisations and the attention needs to be drawn on how accrual accounting can address the issues therein (Gårseth-Nesbakk, 2011; Backer *et al.*, 2010; Grossi and Newberry, 2009; Menezes *et al.*, 2009) adding that political interest of the state needs to be addressed.

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